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SUBJECT: ETHIOPIA: PRIME MINISTER MELES COMMENTS ON PRIVATE-SECTOR
LED ECONOMIC GROWTH

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¶11. SUMMARY: A two-day conference organized by the World Bank, donors, and the Ministry of Trade and Industry underscored the GOE's commitment to accelerate private sector and export-led economic growth. Following the conference, Prime Minister Meles met for two hours with selected conference participants to discuss recommendations and the findings of the World Bank's 2006 Ethiopian Investment Climate Survey. END SUMMARY.

¶12. On June 27 and 28, the Ministry of Trade and Industry, the World Bank, and the Donor Assistance Group on Private Sector Development and Trade, organized a conference on private sector-led growth in Ethiopia, drawing approximately 150 participants from the private sector, government, donor groups, NGOs, embassies, civil society and the Ethiopian Diaspora. USAID provided key input in helping to shape the conference agenda, and in formulating and presenting recommendations for consideration by the Prime Minister and other senior government officials. USTR Director for African Affairs William Jackson was a conference speaker.

¶13. Sufian Ahmed, Minister of Finance and Economic Development, underscored the GOE's commitment to stimulating private-sector economic growth, asserting that the GOE continued to implement reforms focused on reducing the cost of doing business and enhancing the confidence of the private sector. He also noted the challenges to the private sector, including low labor productivity and limited capacity to compete.

¶14. Ishac Diwan, Country Director of the World Bank for Ethiopia and Sudan, noted that industry could be an important component of promoting economic growth and reducing urban unemployment, and that export development could help close the balance of payments gap. He expressed optimism that Ethiopia was realizing the vision of private-sector growth, noting that several sectors were beginning to show signs of dynamism, and that 26 state-owned enterprises had been privatized over the last year. Ethiopia was on its way to a fourth consecutive year of rapid economic growth. Diwan said the GOE's industrial development strategy needed updating to reflect recent dynamism in the economy. Additionally, he noted the importance of using the Diaspora's talents to support Ethiopia's development.

RESULTS OF THE WORLD BANK INVESTMENT CLIMATE
STUDY AND CHALLENGES TO COMPETITIVENESS

¶15. World Bank officials noted that a comparison of Investment Climate Studies from 2002 and 2006 indicated significant improvements in many investment climate variables (i.e., access to land and finance, tax rates and tax administration), but also showed that significant constraints remain, especially perceived unfair

competition. Labor productivity remains low, and industries are not sufficiently clustered to achieve market competitiveness. Further, the study indicates that progress is uneven and that state-owned enterprises face a more favorable investment climate.

¶6. Following the presentation of the study results, Minister of Industry Tadesse Haile discussed the basic principles of the GOE's industrial development strategy, including: recognition of the private sector as an engine of economic development; linkages with agricultural development led-industrialization (ADLI); export-led industrialization; focus on labor-intensive technologies; the role of domestic and foreign investments; the role of Government in spearheading investments; and public-private partnership. The strategy identifies priority sectors for exports, including textiles and garments, meat and meat products, agro-processing, leather and leather products, and metal. Currently, industry accounts for 13.5 percent of GDP, which falls short of ultimate goals. Minister Tadesse said the role of government was crucial in improving the investment climate and tax administration, ensuring efficient allocation of resources, and stimulating private sector development by improving infrastructure. As evidence of the policy's impact, he cited 26 percent annual growth in total exports. Ethiopia had begun to export finished leather products, flower exports had increased to USD 8 million monthly, and there was diversification into new exports. Challenges included lack of intra-industry linkages, lack of capital and skill or knowledge, and low institutional capacity.

PRIME MINISTER DISCUSSES GOVERNMENT'S ROLE

¶7. At the conclusion of the conference, Prime Minister Meles Zenawi met with selected participants to discuss the findings of the report. The PM stressed several points:

-- the Government would actively address any bottlenecks hindering private sector export-led economic growth;

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-- the GOE's current strategy calls for focusing on a few sub-sectors, demonstrating their potential to be globally competitive, and then taking steps to scale up successes;

-- the cluster development approach should be pursued to achieve trade competitiveness (the floriculture and leather sectors were cited as examples);

-- while the financial sector should be reformed if needed to improve financial services for the private sector, the Government was not convinced of the need for complete liberalization; and

-- a one-stop shop should be established to provide information to the Diaspora on investment opportunities, processes, and available assistance.

¶8. While the Prime Minister was open to many of the findings of the World Bank report, he expressed reluctance to move forward with some key reforms. For example, he stated that bilateral agreements such as AGOA with the U.S., and EBA with the European Union, may obviate the need for World Trade Organization accession in the short term. He also noted additional challenges to Ethiopia's development, including foreign exchange shortages, and capacity constraints in human resources, infrastructure, and systems.

¶9. COMMENT: The consultation by the Prime Minister with the private sector and international donors underscored the GOE's renewed commitment to accelerate private sector and export-led economic growth. Although the GOE expressed concerns about advancing too rapidly on some issues (i.e., full liberalization of the financial sector, land tenure reform, deeper telecommunications reform, and WTO accession), the conference highlighted the Government's willingness to engage in constructive dialogue with the private sector and other development partners, and to take measures to enhance the overall investment climate, including increasing government funding for infrastructure development, technology generation and transfer, and capacity building. END COMMENT.

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